HEBRON TOWNSHIP CHEBOYGAN COUNTY, MICHIGAN

Financial Statements For the Year Ended March 31, 2006

Prepared By: Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

			ernment Typ		d P.A. 71 of 1919		Local Unit Name			County
⊐с	ount	у	□City	⊠Twp	□Village	Other	Hebron			Cheboygan
	Year				Opinion Date			Date Audit Report Subm	itted to State	
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١.	×		The local	unit has a	dopted a bud	iget for all re	equired funds.			
5.	×		A public I	nearing on	the budget w	vas held in a	accordance with	State statute.		
3.	X		The local other guid	unit has n dance as i	ot violated th ssued by the	e Municipal Local Audit	Finance Act, ar and Finance Di	n order issued under ivision.	the Emergen	cy Municipal Loan Act, or
.	X		The local	unit has n	ot been delin	quent in dis	stributing tax rev	enues that were colle	ected for ano	ther taxing unit.
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€.	X		Audits of	Local Unit	ts of Governn	nent in Mich	nigan, as revised	nat came to our attent I (see Appendix H of	Bulletin).	
10.	×		There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our au that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that not been communicated, please submit a separate report under separate cover.				during the course of our audit If there is such activity that t			
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3.	×		accepted	l accountin	ng principles ((GAAP).		nodified by MCGAA		and other generally
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15.	_							were performed time		
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Oth	er (D	escrib	e)							
			Accountant (F Mahlmei	irm Name) ster, CPA	, PC			elephone Number 231-436-5223		
	et Add		Nicolat S	treet DC) Boy 996			City Mackinaw City	State MI	Zip 49701
580 South Nicolet Street, P.O. Box 996 Authorizing CPA Signature Maximustr. CPA Pri				1	omman ony	1 '*''	1			

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Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

July 31, 2006

Township Board Hebron Township Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Hebron Township*, *Cheboygan County*, *Michigan*, as of and for the year ended March 31, 2006, which collectively comprise *Hebron Township's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of *Hebron Township's* management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of *Hebron Township*, *Cheboygan County*, *Michigan*, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2006.

The management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 22 through 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Hebron Township's* basic financial statements. The other supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bechan Mulle, OA Richard E. Mahlmeister, C.P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at March 31, 2006 totaled \$198,925 for governmental activities. Of the total, \$133,201 represent capital assets, net of depreciation.

Revenues derived from governmental activities were \$55,746; all from general revenues. Overall expenses for the Township's governmental activities were \$52,306.

The Township has no outstanding debt nor were any capital assets purchased during the fiscal year. Capital asset and debt activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year March 31, 2006.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General Fund, Special Revenue-Fire Fund, Liquor Law Enforcement Fund and Cemetery Fund.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

	March 31, 2006	March 31, 2005
Current and other assets	\$65,724	\$58,166
Capital assets (net)	133,201	137,289
Total assets	\$198,925	\$195,455
Liabilities	\$30	<u> </u>
Net assets:		
Invested in capital assets	\$133,201	\$137,289
Unrestricted	65,694	58,166
Total	\$198,895	\$195,455

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

	March 31, 2006	March 31, 2005
REVENUES:		
Program revenues:		
Charges for services	\$ -	\$400
General revenues:		
Property taxes	23,826	22,056
State-shared revenues	31,394	31,406
Interest income	209	175
Reimbursements and other	317	6,167
Total revenues	55,746	60,204
EXPENSES:		
Legislative	4,958	6,285
General government	28,115	31,149
Public safety	9,517	7,048
Public works	5,606	30
Other	4,110	4,186
Total expenses	52,306	48,698
Increase in net assets	3,440	11,506
Beginning net assets	195,455	183,949
Ending net assets	\$198,895	\$195,455

The Township is able to report positive balances in net assets. Net assets increased by \$3,440. Property taxes have increased and state-shared revenues have decreased. Reimbursements in the prior year did not occur in the current year. Overall expenses have increased by \$3,608, mainly due to additional road maintenance during the current year.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND FINANCIAL STATEMENTS (CONTINUED)

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains four individual governmental funds; General Fund, Fire Fund, Liquor Law Enforcement Fund and Cemetery Fund; of which the General and Fire Funds we consider major funds. The Township funds are financed primarily by both property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Activities

The General, Fire, Liquor Law Enforcement and Cemetery Fund activities remained consistent, and the Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, fire protection and tax collection. The General Fund increased its fund balance by \$5,822, bringing the fund balance to \$57,899 and the Special Revenue-Fire Fund increased its fund balance by \$1,693, bringing the fund balance to \$5,454.

Capital Asset and Debt Administration

At March 31, 2006, the Township had \$146,657 in capital assets, which includes the township hall and office equipment. No additional capital assets were purchased during the current year, nor was any debt incurred. The Township has no debt as of March 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

Overall there are no significant differences between the original and actual budget for any fund.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township expects financial aspects of governing to be generally the same as in the current year. However, one area of continuing potential revenue reduction is in state-shared revenues. These monies come from the State of Michigan and are contingent on various economic and political consideration. We believe that we need to continue to strive for a healthy fund balance.

CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 231.627.6197 (Hebron Township Hall).

Charles Ostwald

Hebron Township Supervisor

Gary Douglas

Hebron Township Clerk

Day Douglas

BASIC FINANCIAL STATEMENTS

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HEBRON TOWNSHIP STATEMENT OF NET ASSETS MARCH 31, 2006

_	ASSETS	GOVERNMENTAL ACTIVITIES
_	Cash and cash equivalents	\$32,889
	Investments	30,000
	Taxes receivable	2,835
_	Capital assets	146,657
	Accumulated depreciation	(13,456)
_	TOTAL ASSETS	\$198,925
_	LIABILITIES AND NET ASSETS	
	LIABILITIES:	
_	Accrued payroll taxes payable	\$30
	NET ASSETS:	
_	Invested in capital assets	133,201
	Unrestricted	65,694
_	TOTAL NET ASSETS	198,895
	TOTAL LIABILITIES	
	AND NET ASSETS	\$198,925

HEBRON TOWNSHIP STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions		
Primary government					
Governmental activities					
Legislative	\$4,958	s -	\$		
General government	28,115	<u>.</u>	•		
Public safety	9,517	-			
Public works	5,606	-			
Other	4,110	<u> </u>			
Total governmental activities	52,306	-			
	General Revenues				
	P	roperty taxes			
	S	tate-shared revenues			
	U	nrestricted interest incom	me		
	O	ther			
	То	tal general revenues			
	Ch	ange in net assets			
	Ne	t assets, beginning of yea	r		
	Ne	t assets, end of year			

Conital Counts	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Capital Grants and	
Contributions	TOTAL
s	- (\$4,958)
•	- (28,115)
	- (9,517)
	- (5,606)
	- (4,110)
	- (52,306)
	23,826
	31,394
	209
	317
	55,746
	3,440
	195,455
	\$198,895

FUND FINANCIAL STATEMENTS

HEBRON TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

ASSETS	GENERAL FUND	FIRE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	The second of the second secon		The state of the s	····
Cash and cash equivalents	\$25,422	\$4,189	\$2,341	\$31,952
Investments	30,000	- ·,- ·-	-	30,000
Taxes receivable	1,570	1,265	-	2,835
Due from tax collection fund	937		-	937
TOTAL ASSETS	\$57,929	\$5,454	\$2,341	\$65,724
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued payroll taxes payable	\$30	\$ -	\$ -	\$30
FUND BALANCES				
Unreserved:				
Unreserved, undesignated	57,899	5,454	2,341	65,694
TOTAL FUND BALANCES	57,899	5,454	2,341	65,694
TOTAL LIABILITIES				
AND FUND BALANCES	\$57,929	\$5,454	\$2,341	\$65,724

HEBRON TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets \$65,694 FUND BALANCES - TOTAL GOVERNMENTAL FUNDS Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 146,657 Add: capital assets (13,456)Subtract: accumulated depreciation \$198,895

NET ASSETS OF GOVERNMENTAL ACTIVITIES

The accompanying notes are an integral part of these financial statements.

HEBRON TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	FIRE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$14,072	\$9,754	s -	\$23,826
State shared revenues	30,239	-	1,155	31,394
Interest	196	-	13	209
Other	317			317
TOTAL REVENUES	44,824	9,754	1,168	55,746
EXPENDITURES				
Current:				
Legislative	4,958	-	-	4,958
General government	24,027	-	-	24,027
Public safety	-	8,061	1,456	9,517
Public works	5,606	-	-	5,606
Other functions	4,110	-	_	4,110
TOTAL EXPENDITURES	38,701	8,061	1,456	48,218
REVENUES OVER (UNDER) EXPENDITURES	6,123	1,693	(288)	7,528
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(301)	-	301	
NET CHANGE IN FUND BALANCES	5,822	1,693	13	7,528
FUND BALANCES, BEGINNING OF YEAR	52,077	3,761	2,328	58,166
FUND BALANCES, END OF YEAR	\$57,899	\$5,454	\$2,341	\$65,694

HEBRON TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

_	Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities	
-	NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$7,528
-	Amounts reported for governmental activities in the statement of activities are different because:	
-	Governmental funds report capital outlays as expenditures. However, those costs	
	are allocated over their useful lives as annual depreciation expense in the statement of activities.	
	Add: capital outlay capitalized during the current year	
	Subtract: depreciation expense	(4,088

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

HEBRON TOWNSHIP STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUND MARCH 31, 2006

	ASSETS	AGENCY FUND
_	Cash	\$937
_	LIABILITIES	
	Due to other funds	937
	NET ASSETS	
_	Fiduciary Net Assets	S

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hebron Township, Cheboygan County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

Hebron Township adopted the governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments, and Statement No. 38, Certain Financial Statement Note Disclosures and applied those standards as of April 1, 2004. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

Joint Operation

See Note 8 for information describing related organizations not included in the Township's reporting entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major funds:

<u>General Fund</u> - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Fire Fund - The Special Revenue - Fire Fund is used to account for expenditures related to contracted, township provided, fire service. Financing is provided primarily by a special property tax levy.

The Township reports the following special revenue - nonmajor funds:

<u>Liquor Law Enforcement Fund</u> - The Liquor Fund accounts for liquor license fees refunded by the State and utilization for enforcement of the State's liquor laws.

<u>Cemetery Fund</u> - The Cemetery Fund is used to account for expenditures related to future improvements of the cemetery. Financing is provided primarily by interest earnings.

Fiduciary Funds

<u>Trust and Agency Fund</u> - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Because the Township is considered a phase 3 government for GASB 34 implementation requirements, the Township is not required to report infrastructure retrospectively. Any future infrastructure additions will be capitalized, if any.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements 15-40 years Furniture and equipment 5-10 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2006.

FUND EQUITY

Reserved fund balances for governmental funds indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted by the Township officials for the General and Special Revenue Funds. The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
- 5. Appropriations expire at the end of the fiscal year.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year the Township incurred expenditures which exceeded the amount appropriated as follows:

Fund	Appropriations	Expenditures	Variance
GENERAL			
Supervisor	\$7,625	\$8,884	\$1,259
Board of Review	\$ 600	\$ 889	\$ 289
Clerk	\$5,290	\$5,336	\$ 46
Public Works	\$4,000	\$5,606	\$1,606
Transfers	\$ -	\$ 301	\$ 301
SPECIAL REVENUE			
Fire Fund			
Public Safety	\$7,000	\$8,061	\$1,061
Liquor Law Enforcement	:		
Public Safety	\$1,456	\$1,110	\$ 346

NOTE 3: PROPERTY TAX

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The Township will receive 100% payment for the delinquent tax by June, 2006.

The taxable value of the Township totaled \$11,618,444, on which ad valorem taxes consisted of .8535 mills for the Township's operating purposes and .8535 mills for fire protection, raising \$9,754 for operating purposes and \$9,754 for fire protection.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4: CASH AND CASH EQUIVALENTS

The caption on the statement of net assets relating to cash and cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$32,889
Investments (certificates of deposit)	30,000
	\$62,889

The Township uses a common bank account. The equity of each fund in the common account is as follows:

General Fund	\$6,410
Special Revenue – Fire	4,189
	•
	\$10,599

The total deposits in each individual financial institution do not exceed \$100,000 and therefore, are covered by the Federal Deposit Insurance Corporation (F.D.I.C.).

All accounts are in the name of the Township and a specific fund. They are recorded in Township records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivables and payables for the year ended March 31, 2006 are as follows:

	Interfund	Interfund
Fund	Receivable	Payable
General	\$937	\$ -
Tax Collection	-	937
Total	\$937	\$937

The composition of operating transfers for the year ended March 31, 2006 are as follows:

Fund	Transfer out	Transfer in	
General	\$301	\$ -	
Liquor Law Enforcement	<u> </u>	301	
Total	\$301	\$301	

NOTE 6: CAPITAL ASSETS

Capital asset activity of the governmental activities for the current year was as follows:

	Balance			Balance
	April 1, 2005	Additions	Deletions	March 31, 2006
Not being depreciated:				
Land	\$1,000	\$ -	\$ -	\$1,000
Being Depreciated: Building and Improvements	139,695	-		139,695
Furniture and Equipment	5,962			5,962
Subtotal	146,657	-	-	146,657
Less accumulated depreciation	(9,368)	(4,088)		(13,456)
Total	\$137,289	(\$4,088)	<u> </u>	\$133,201

Depreciation was charged to the Township's functions as follows:

General government \$4,088

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: PENSION PLAN

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 6.2% of employees' gross earnings and employees contribute 6.2% percent of earnings. In accordance with these requirements, the Township contributed \$1,141 during the current year, and the employees contributed \$1,141.

NOTE 8: JOINT OPERATION

The Township, in conjunction with Inverness, Beaugrand and Munro Townships, Cheboygan County, have created the Inverness Fire Department to provide fire service to local residents. In accordance with the agreement, the Inverness Fire Department is governed by a nine-member board composed of two appointees from each Township, with the largest Township (Inverness Township) appointing three members. Each Township contributes a percentage of the approved budget, based on each township's proportionate share of its taxable value. For the year ended March 31, 2006, Hebron Township's share of contributions were \$6,061, based on the formula described above. In accordance with the agreement, net assets and/or equipment will only be distributed upon withdrawal or termination of the agreement. Financial statements of the Inverness Fire Department, which is included in the financial statements of Inverness Township, Cheboygan County, can be obtained by writing the Inverness Fire Department at 1193 Woiderski Road, Cheboygan, MI 49721.

NOTE 9: RISK MANAGEMENT

Hebron Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for property of \$155,000, general liability of \$1,000,000, wrongful acts of \$1,000,000, crime of \$10,000, automobile of \$1,000,000, inland marine liability of \$13,000 and bonding for public officials errors and omissions. Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED	SUPPL	EMENT	ARY	INFOR	MATIO	N

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HEBRON TOWNSHIP BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes:				
Property tax	\$9,000	\$9,000	\$9,754	\$754
Property taxes - administrative fee	3,300	3,300	4,318	1,018
Total taxes	12,300	12,300	14,072	1,772
State shared revenues:				
State shared revenues	18,510	18,510	20,464	1,954
State shared revenues-METRO Act	2,100	2,100	1,467	(633)
Swampland and commercial forest tax	8,300	8,300	8,308	
Total state shared revenues	28,910	28,910	30,239	1,329
Interest	390	390	196	(194)
Other revenue:				
Other			317	317
Total other revenue		•	317	317
TOTAL REVENUES	41,600	41,600	44,824	3,224

HEBRON TOWNSHIP BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

				VARIANCE WITH FINAL AMENDED BUDGET
CURRENT:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	POSITIVE (NEGATIVE)
LEGISLATIVE	DUDGEI	BUDGET	ACTUAL	(NEGATIVE)
Township board	\$6,650	\$6,650	\$4,958	\$1,692
Township sound				
GENERAL GOVERNMENT				
Supervisor	7,625	7,625	8,884	(1,259)
Elections	1,325	1,325	-	1,325
Board of Review	600	600	889	(289)
Clerk	5,290	5,290	5,336	(46)
Treasurer	7,300	7,300	6,535	765
Township property	2,365	2,365	2,133	232
Cemetery	250	250	250	<u> </u>
TOTAL GENERAL GOVERNMENT	24,755	24,755	24,027	728
PUBLIC WORKS				
Highways and streets	4,000	4,000	5,606	(1,606)
OTHER FUNCTIONS				
Insurance, bonds and other benefits	6,600	6,600	4,110	2,490
TOTAL EXPENDITURES	42,005	42,005	38,701	3,304
REVENUES OVER (UNDER) EXPENDITURES	(405)	(405)	6,123	6,528
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	-	-	(301)	(301)
NET CHANGE IN FUND BALANCE	(405)	(405)	5,822	6,227
FUND BALANCE - BEGINNING OF YEAR	52,077	52,077	52,077	_
FUND BALANCE - END OF YEAR	\$51,672	\$51,672	\$57,899	\$6,227

HEBRON TOWNSHIP BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE - FIRE FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property tax	\$9,300	\$9,300	\$9,754	\$454
TOTAL REVENUES	\$9,300	\$9,300	\$9,754	\$454
EXPENDITURES:				
Public safety	7,000	7,000	8,061	(1,061)
TOTAL EXPENDITURES	7,000	7,000	8,061	(1,061)
NET CHANGE IN FUND BALANCE	2,300	2,300	1,693	(607)
FUND BALANCE, BEGINNING OF YEAR	3,761	3,761	3,761	
FUND BALANCE, END OF YEAR	\$6,061	\$6,061	\$5,454	(\$607)



HEBRON TOWNSHIP COMBINING BALANCE SHEET SPECIAL REVENUE - NONMAJOR GOVERNMENTAL FUNDS MARCH 31, 2006

_	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	TOTAL
ASSETS: Cash and cash equivalents	<u>s</u> -	\$2,341	\$2,341
FUND BALANCES: Unreserved, undesignated	\$ <u>-</u>	\$2,341	\$2,341

HEBRON TOWNSHIP COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE - NONMAJOR GOVERNMENTAL FUNDS MARCH 31, 2006

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	TOTAL
REVENUES:			
State shared revenues	\$1,155	\$ -	\$1,155
Interest		13	13
TOTAL REVENUES	1,155	13	1,168
EXPENDITURES:			
Public safety	1,456	-	1,456
TOTAL EXPENDITURES	1,456	-	1,456
REVENUES OVER (UNDER) EXPENDITURES	(301)	13	(288)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	301	-	301
NET CHANGE IN FUND BALANCES	-	13	13
FUND BALANCES - BEGINNING OF YEAR		2,328	2,328
FUND BALANCES - END OF YEAR	<u> </u>	\$2,341	\$2,341



Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

July 31, 2006

Township Board Hebron Township Cheboygan County, Michigan

In planning and performing my audit of the financial statements of *Hebron Township*, *Cheboygan County*, *Michigan*, for the year ended March 31, 2006, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated July 31, 2006 on the financial statements of *Hebron Township*.

Thank you for the opportunity to serve *Hebron Township*. I appreciate the assistance I received from both the Clerk and Treasurer during my audit. Best wishes in the next year.

Mullet. CPR

Sincerely,

Richard E. Mahlmeister, C.P.A.

Hebron Township Comments & Suggestions July 31, 2006 Page 2 (two)

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds which exceeded the amount appropriated, as shown in the body of the financial statements.

I suggest that the Township Board on a periodic basis, review appropriations as compared to actual expenditures and amend the budget as necessary to avoid incurring expenditures in excess of appropriations.

CAPITAL ASSETS

I recommend that the Board review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$1,000 to \$2,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.